

AR38

ANNUAL REPORT 1973



DOMAN INDUSTRIES LIMITED

Doman Industries Limited
is actively engaged in the
following businesses:

Logging,
Sawmilling,
Lumber remanufacturing,
Truck transport, as licensed public carriers,
Land development for residential subdivisions,
Sand, gravel and ready mix concrete,
Domestic marketing of lumber
and building supplies,
Export marketing of lumber.

Financial Highlights

	1973	1972
Sales	\$ 42,483,000	\$ 26,330,000
Net Earnings.....	\$ 4,686,000	\$ 2,269,000
Preferred Share Dividends	\$ 12,000	\$ 28,000
Earnings Available for Common Shares	\$ 4,674,000	\$ 2,241,000
Earnings per Common Share	\$ 1.50	\$.79
Common Share Dividends	\$ 547,000	\$ 153,000

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Lumber bulk carrier leaving Cowichan Bay



Tractor and trailer on Malahat Drive



DOMAN INDUSTRIES LIMITED

DOMAN INDUSTRIES LIMITED

(Incorporated under the laws of the Province of British Columbia)

Board of Directors

H. S. Doman, *President, Doman Industries, Duncan, B.C.*
D. C. Roberts, *Chartered Accountant, Victoria, B.C.*
I. C. Danvers, *Rancher, Oyama, B.C.*
J. C. Davie, *Barrister & Solicitor, Williams, Davie & Company, Duncan, B.C.*
D. S. Doman, *Executive, Victoria, B.C.*
E. C. Westwood, *Retired, Victoria, B.C.*
J. R. Abercrombie, C.A., *Treasurer, Doman Industries, Duncan, B.C.*

Officers

H. S. Doman, *President*
J. C. Davie, *Secretary*
J. R. Abercrombie, *Treasurer*

Transfer Agent and Registrar

Royal Trust Company, *Vancouver, B.C.
and Toronto, Ontario*

Stock Exchanges

Common Shares — *Toronto and Vancouver*
Preferred Shares — *Vancouver*
Share Purchase Warrants — *Vancouver*

Bankers

The Royal Bank of Canada

Solicitors

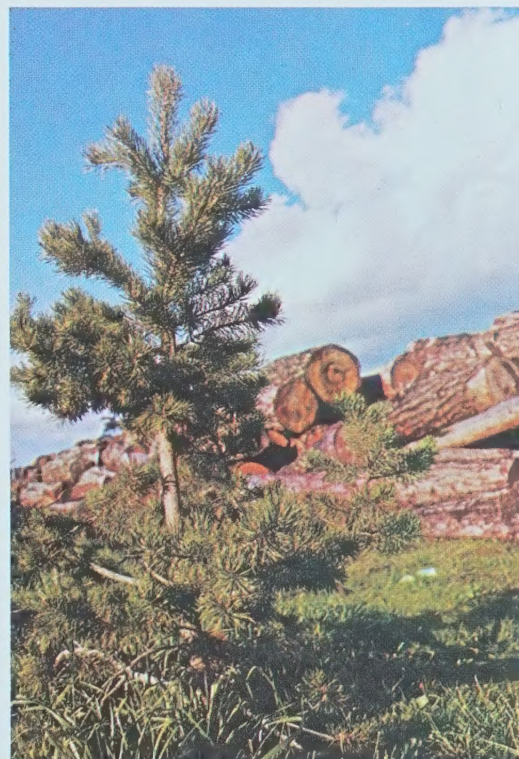
Williams, Davie & Company, *Duncan, B.C.*

Auditors

Thorne Gunn & Co., *Vancouver, B.C.*

Annual Meeting

The Annual General Meeting of the Shareholders of the Company will be held in Duncan, B.C., at the Village Green Inn on Friday, March 29, 1974, at 2:00 o'clock in the afternoon.



Sales Volume (\$ MILLIONS)



Net Earnings (\$ MILLIONS)



President's Report to the Shareholders

Review of Operations for the Year 1973

I am pleased to report to you that in 1973 the Company again achieved new records for both sales and earnings. In summary, these results were as follows: 1973 Sales \$42,483,000, 1972 \$26,330,000, up 61%; 1973 Net earnings \$4,686,000, 1972 \$2,269,000, up 106%; 1973 Earnings per common share \$1.50, 1972 \$.79, up 90%; and 1973 Cash flow from operations \$6,453,000, 1972 \$3,386,000, up 91%. Our three principal businesses fall under the headings Manufacturing and Export Group, Domestic Group, and Transportation Group. Each one of these groups recorded substantial gains in 1973, and I will now comment on the operation of each of them separately.

Manufacturing and Export Group.

1973 lumber production 235 million board feet.

1972 lumber production 127 million board feet.

The Manufacturing and Export Group is the largest of our three groups in terms of sales volume, capital invested and net earnings. Its activities include logging, sawmilling, lumber remanufacturing and the export marketing of lumber.

1973 lumber production was increased by the addition of two sawmills. In April 1973, Nanaimo Forest Products Limited acquired the Vancouver, B.C. sawmill operation of Anderson Bros. Lumber Co. Ltd., and in the seven month period to October 31, 1973, this plant produced 29 million board feet. The new Saltair Lumber Company Ltd. sawmill started producing lumber in late 1972 and in the year ended October 31, 1973, it produced 64 million board feet. Saltair is owned 20% by Domans and 80% by Pacific Logging Company Ltd. 1973 lumber production from our plants at Ladysmith and Chemainus, B.C. totalled 142 million board feet (1972 127 million board feet), bringing the total lumber production from these four plants to 235 million board feet in the year ended October 31, 1973. Doman Timber Sales Limited sells the lumber for all four plants mentioned under this section.

On a world wide basis the demand for lumber was strong in 1973. In the first half of the year we enjoyed a buoyant lumber market on the U.S. Atlantic Coast and when U.S. demand slackened in the second half, we were able to divert a considerable volume into markets outside of North America, notably Japan, Europe and the United Kingdom.



H. S. DOMAN,
President and Chairman of the Board

Domestic Group

1973 Sales \$13,603,000, 1972 Sales \$10,182,000

The undertakings of this group include the domestic marketing of lumber and building supplies, a separate division which handles ready mix concrete, sand and gravel, and a land development section for residential subdivisions. The three activities within this group are closely integrated. Operating from five locations in B.C. the domestic marketing group enjoyed excellent business conditions in 1973. The development of subdivision lots and the involvement in house construction on these lots again contributed to a steady growth in sales volume and in net earnings.

Transportation Group

Miles travelled 1973 4,242,000 miles, 1972 3,756,000 miles

The Transportation Group operates as a public carrier of freight. Operations are based out of two major terminals one in Duncan on Vancouver Island, and the other in Richmond just outside of Vancouver, B.C. Repair facilities are located at both of these terminals.

During 1973 our fleet of diesel tractors increased by 6 units to 71 and our trailer fleet increased by 12 units to 139. The transport group benefited from the general prosperity in the areas in which it operates, which include all of B.C., north into the Yukon and south into Washington and Oregon. Both the volume of business and the net profits increased in 1973.

Shares and Dividends

In March 1973 the dividend rate on the Company's common shares was increased, and on April 9, 1973, these shares were split two for one. As a result of these two

events the present dividend rate on the common shares is 20 cents annually payable 5 cents quarterly. In December 1973 the ninth consecutive quarterly dividend was declared payable on these common shares while the thirty-sixth consecutive quarterly dividend was declared payable on the preferred shares of the Company. At our October 31, 1973, year end there were 3,173,072 common shares issued and 10,976 cumulative redeemable convertible preferred shares remained issued and outstanding.

General

We have provided each of our operating divisions with modern equipment as part of our continuing policy to control costs and to strive for productivity gains. I am pleased to report that our employees have always given that extra effort which is necessary to achieve these goals. The continued loyal and dedicated efforts of our employees is sincerely appreciated.

During 1973 capital expenditures totalled \$4,033,000 and the net book value of capital assets disposed of totalled \$143,000. Included in the above capital expenditures is the sum of \$1,500,000 paid by Nanaimo Forest Products Limited for the acquisition of the Vancouver, B.C. plant site and sawmill of Anderson Bros. Lumber Co. Ltd. Major projects completed during the year include; the new Duncan Financial Centre Ltd. office building the top floor of which is occupied by the head office of Doman Industries Limited; extensive improvements to the Richmond, B.C. yard including paving and installation of a rail spur; and the addition of a gang mill at the Chemainus, B.C. sawmill. In 1973 installation of a new band headrig at the Chemainus mill commenced, and this unit started operating in January 1974.

At the year end the company's employees numbered 615 people (1972 451 people). The total salaries, wages and benefits paid in the year ended October 31, 1973, amounted to \$6,445,000 (1972 \$4,538,000). Personal income taxes paid in respect to these 1973 payrolls amounted to \$1,274,000, (1972 \$880,000). For the year ended October 31, 1973, current Federal Corporation Income Taxes totalled \$2,747,000, (1972 \$1,559,000), while Income, Logging and Mining taxes to the Province of B.C. amounted to \$1,653,000, (1972 \$753,000). Federal Sales Taxes remitted in 1973 amounted to \$413,000, (1972 \$189,000) while B.C. Provincial Sales Taxes remitted were 1973 \$459,000, (1972 \$427,000).

Expansion

We have ended the year with a strong financial position as indicated by working capital of \$8,063,000 (1972 \$4,325,000). We are preparing for expansion in all three of our operating groups and a substantial capital expenditure program including a new sawmill is contemplated. In

order to preserve working capital we plan to raise additional funds through a debenture issue under appropriate conditions in the financial market place. No issue of shares is under consideration.

Earnings

Our annual earnings in the past five years, expressed in the form of earnings per common share, are set out below. The undiluted earnings are of current interest, while a year by year comparison is more easily facilitated by a review of the earnings on a fully diluted basis. All earnings per share figures have been restated to take into account common stock splits of three for one in 1969 and two for one in 1973.

	<u>Undiluted</u>	<u>Full Diluted</u>
1973	1.50	1.44
1972	.79	.71
1971	.51	.43
1970	.20	.17
1969	.30	.24

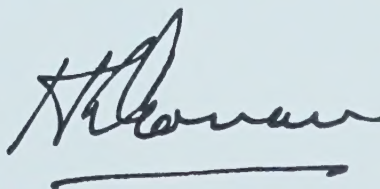
A reasonable forecast of earnings for 1974 is difficult to make at the time of publishing this report. Until the economy for 1974 is more clearly defined we will not be making any specific forecasts for 1974. However, we will continue to keep you informed in our quarterly reports as the business climate develops.

Outlook

To sum up the short term outlook, it appears that while the lumber business will be difficult in the first half of 1974 the chances are good for conditions to improve rapidly in the second half. We are planning to expand in an orderly manner so as to take full advantage of the long-term growth trends in the world wide demand for lumber. The years to come look very good for the lumber business.

Turning to our other operating areas, I am anticipating a steady growth in sales for both the transportation group and the domestic group.

Respectfully submitted,



H. S. Doman,
President & Chairman of the Board.

DUNCAN, B.C.
February, 1974.



Timber Crest subdivision



Trailer load of lumber at mill yard

SCOPE OF THE COMPANY

The Main Operating Groups

The Company's three main operating groups are the Manufacturing and Export Group, the Domestic Group and the Transportation Group. In each group the divisional operations are closely integrated. Similarly, the three groups are able to provide assistance to each other.

In the areas of supply and marketing the sawmills and the lumber remanufacturing plant ensure that a supply of lumber is always available to the customers of our domestic lumber yards. While the Doman sawmills do not normally supply all of the Domestic Group's lumber requirements they can provide whatever volumes are not available from other sources. Similarly the domestic yards stand ready to take additional volumes from the Manufacturing and Export Group whenever the export markets are poor. In the sawmill export lumber production runs there are items produced which are better sent to our remanufacturing plant for further processing, and items which are best sold on the domestic market. This leads to inhouse trading in order to get the highest end price.

The Transportation Group does the hauling for our sawmills, lumber remanufacturing plant and building supply

Sawmill "Barker" control panel



Log yard, Nanoose Forest Products





Barge load of lumber from Nanaimo Forest Products



Transporting logs by tractor and trailer

yards. This work can often be done in the off hours which allows for good utilization of the transport equipment. In addition, the lumber remanufacturing plant and building supply yards can purchase loads of lumber from all points serviced by our transport fleet. These purchases provide the transport fleet with backhauls, and provide the purchasing division with lumber from those areas in the Pacific Northwest which would not normally be accessible to them if empty trailers had to be sent in for the loads. All inter company transactions are at market.

An analysis of sales volume by group is as follows:

	1973	1972	1971	1970	1969
	(\$ millions)				
Manufacturing and Export Group.....	30.3	16.2	13.0	8.1	8.2
Domestic Group	13.6	10.2	6.9	5.3	6.9
Transportation Group.....	4.0	3.4	2.9	2.3	2.0
Sub-total.....	47.9	29.8	22.8	15.7	17.1
Consolidation eliminations ...	(5.4)	(3.5)	(2.0)	(1.8)	(2.8)
Net Consolidated Sales.....	42.5	26.3	20.8	13.9	14.3

1973 consolidated net earnings of \$4,686,000 were derived from Manufacturing and Export Group \$4,012,000 or 86% and Domestic and Transportation Groups combined \$674,000 or 14%. In 1972 consolidated net earnings

of \$2,269,000 were derived from Manufacturing and Export Group \$1,720,000 and Domestic and Transportation Groups combined \$549,000.

Manufacturing And Export Group, included are:

Doman Timber Sales Limited, 100% owned, whose export division holds the lumber sales contracts for the under-noted sawmill companies in the group.

Nanoose Forest Products Limited, 100% owned, whose operation on Company lands at Chemainus, B.C., include a lumber remanufacturing plant and a "Small Log" gang sawmill. The latter was completed in 1973 and current expansion at this plant includes a new band headrig which commenced operating in January 1974. Production from Nanoose in 1973 was 20 million board feet and in 1974 the annual rate of production will increase substantially.

Ladysmith Forest Products Limited, 80% owned with 20% held by subsidiaries of Canadian Pacific Investments Limited. Ladysmith operates a "Small Log" sawmill at Ladysmith, B.C., on land held under long term lease. Production from Ladysmith in 1973 was 122 million board feet.

Saltair Lumber Company Ltd., 20% owned with 80% held by a subsidiary of Canadian Pacific Investments Limited.

Gang mill, Nanoose Forest Products



Finished lumber at deep sea dock





Duncan Financial Centre office building



Moving a log loader

Saltair commenced operating a new "Large Log" sawmill at Ladysmith, B.C., in September 1972. Production from Saltair in the year ended October 31, 1973, was 64 million board feet.

Nanaimo Forest Products Limited, 100% owned. In April 1973, Nanaimo Forest Products Limited purchased the plant site and the sawmill of Anderson Bros. Lumber Co. Ltd., located on land on the North Arm of the Fraser River in the City of Vancouver. In the seven month period to October 31, 1973, this plant produced 29 million board feet. The acquisition was made primarily for the plant site with the future intention being to build a large modern sawmill on this site. This intention has not changed.

O.B. Logging Co. Ltd., 100% owned, which operates a Timber Sale Harvesting License 50 miles north of Vancouver, B.C. at Jervis Inlet, as well as several Timber Sales all in the Quadra Public Sustained Yield Unit. The annual allowable production of logs under license and sale is 20 million board feet.

Domestic Group, included are:

Five building supply outlets in B.C. operated by Doman Industries Limited. There are wholesale yards in Nanaimo,

Victoria and Surrey, a combination wholesale-retail yard in Duncan, and a retail store in Victoria. In this group a supporting materials assembly yard is located at Chemainus, B.C. The Richmond, B.C. domestic division of Doman Timber Sales Limited is also included in this group and it supplies line yards and building supply outlets on the B.C. mainland. All of these facilities are located on land owned by the company with the exception of the Victoria stores which are located on land held under long term lease.

Also in the group is Armour & Saunders Ltd., 100% owned, which company works closely with the Doman's building supply outlets on Vancouver Island. Armour & Saunders Ltd. operates a sand, gravel and ready mix concrete business, has its own aggregate deposits, washing plant and concrete batch plant all located on land owned by the company, and operates a modern fleet of specialized mobile equipment to deliver its products. The fourth company in the Domestic Group is Doman Investments Limited, 100% owned, which company holds share interests varying from 20% to 50% in three land development companies in the business of providing residential building lots on Vancouver Island. The company also owns land in its own right including an inventory of lots suitable for residential and commercial construction.

Cowichan Bay subdivision



Sawmill by-products blower system





Log sorting, Nanoose Forest Products



Lumber green chain

As far as possible, building projects on all of these lands are supplied with building materials and ready mix concrete from Doman's building supply yards.

The fifth company in the Domestic Group is a real estate holding company, Duncan Financial Centre Ltd., 51% owned, whose principal asset is a large three storey office building located in Duncan, B.C. The corporate headquarters of Doman Industries Limited is located on the top floor of this new office building.

Transportation Group: included are the following wholly owned subsidiary companies: Doman's Transport Ltd., Doman-Marpole Transport Limited, Doman's Freightways Ltd. and Davinder Freightways Ltd. The fifth member of this group is Hyak Transport Limited 60% owned with 40% of Hyak owned by Westcan Terminals Ltd., a subsidiary of Sooke Forest Products Ltd. The Transportation Group operates out of modern dispatch and repair facilities on land held under long term lease in Duncan on Vancouver Island and on company land in Richmond on the lower B.C. mainland. The equipment fleet presently includes 71 diesel tractors and 139 trailers, numerous pieces of specialized mobile equipment, and additional equipment hired on a daily basis to meet peak demand periods. Miles

travelled in 1973 were 4,242,000 (1972 — 3,756,000).

The Transportation Group operates as a public carrier of freight throughout British Columbia, north into the Yukon and south into Washington and Oregon. In addition to operating as a public carrier, our transport fleet is able to handle the internal movement of goods for the other Doman divisions, including bulk deliveries from suppliers and to customers. This inhouse business provides our transport fleet with exceptionally high equipment utilization. In turn, the ability to call on the transport fleet to move large volumes of cargo quickly and on a night shift basis is of great assistance to the other divisions of the Company.

Sawmill "Edger" control panel



Transporting logs by tractor and trailer



DOMAN INDUSTRIES LIMITED

Financial Summary/1965-1973



Earnings

	1973	1972	1971
Sales	\$42,483,287	\$26,329,890	\$20,816,101
Earnings Before Income Taxes	9,409,256	4,674,302	3,042,831
Less Income Taxes	4,722,857	2,405,664	1,681,569
Net Earnings	4,686,399	2,268,638	1,361,262
Less Preferred Dividends	12,586	28,058	39,065
Net Earnings Available for Common Shares	4,673,813	2,240,580	1,322,197
Earnings Per Common Share*			
— Undiluted	1.50	.79	.51
— Fully Diluted	1.44	.71	.43

*(Adjusted for stock splits of 3 for 1
in 1969 and 2 for 1 in 1973)

Cash Flow

	1973	1972	1971
Cash Flow from Operations	\$ 6,452,728	\$ 3,385,938	\$ 2,312,604
Issue of Securities	2,031,664	597,953	1,158,397
Sale of Fixed Assets	143,103	256,533	47,110
Purchase of Fixed Assets	4,032,804	2,303,266	1,349,856
Reduction in Long Term Debt	249,629	129,362	272,939
Sundry Use of Funds	47,347	359,005	108,372
Investment in Subsidiary Companies	—	—	293,443
Preferred Dividends	12,586	28,058	39,065
Common Dividends	547,366	152,962	—
Increase (Decrease) in Working Capital	3,737,763	1,267,771	1,454,436

Balance Sheet

	1973	1972	1971
Current Assets	\$18,570,582	\$ 9,811,620	\$ 6,736,193
Current Liabilities	10,507,715	5,486,516	3,678,860
Working Capital	8,062,867	4,325,104	3,057,333
Fixed Assets — Net	9,877,276	6,865,940	5,422,317
Other Assets	1,231,403	963,590	656,834
Long-Term Indebtedness	4,805,824	3,114,633	2,749,089
Deferred Income Taxes	1,103,409	766,041	663,676
Preferred Shares	109,760	347,860	533,560
Common Shareholders' Equity	11,566,149	7,110,758	4,734,393
Interest of Minority Shareholders	1,586,404	815,342	455,766

1970	1969	1968	1967	1966	1965
\$13,944,725	\$14,341,367	\$10,486,069	\$8,362,126	\$7,011,818	\$5,981,820
1,181,439	1,817,993	735,057	314,729	374,560	438,169
657,239	1,077,000	403,961	156,400	184,415	201,498
524,200	740,993	331,096	158,329	190,145	236,671
45,139	55,199	63,050	56,550	37,050	27,788
479,061	685,794	268,046	101,779	153,095	208,883
.20	.30	.13	.05	.07	.10
.17	.24	.11	.05	.07	.09

1970	1969	1968	1967	1966	1965
\$ 1,238,518	\$ 1,593,999	\$ 1,001,781	\$ 428,981	\$ 530,797	\$ 503,446
3,850	1,456,400	668,422	1,350,000	—	1,278,484
198,236	112,948	862	9,618	44,123	129,649
923,417	1,289,193	509,640	1,015,779	735,294	1,283,458
361,328	501,822	300,660	371,234	91,997	—
32,918	31,074	73,939	236,750	33,377	284,215
—	831,531	—	—	—	—
45,139	55,199	63,050	56,550	37,050	27,788
—	—	—	—	—	—
77,802	454,528	723,776	108,286	(322,798)	316,118

1970	1969	1968	1967	1966	1965
\$ 4,759,739	\$ 4,587,142	\$ 3,588,436	\$2,802,367	\$2,571,165	\$1,985,534
3,156,842	3,062,047	2,517,869	2,455,576	2,332,660	1,424,231
1,602,897	1,525,095	1,070,567	346,791	238,505	561,303
4,705,892	4,487,724	2,861,629	2,728,026	1,986,637	1,582,983
425,958	444,479	494,480	461,208	264,347	299,765
2,095,190	2,456,518	1,490,974	1,123,212	544,446	636,333
682,078	601,761	444,761	244,700	235,700	182,700
662,360	727,360	970,000	970,000	570,000	570,000
3,016,999	2,469,088	1,469,254	1,201,208	1,139,318	1,055,018
278,120	202,571	51,687	(3,095)	25	—

DAMAN INDUSTRIES LIMITED

Consolidated Statement of Earnings and Retained Earnings

Year Ended October 31, 1973 (with comparative figures for 1972)

	1973	1972
Sales of products, merchandise and services.....	\$42,483,257	\$26,329,890
Costs and expenses		
Cost of sales, and operating expense.....	29,302,436	18,766,944
Selling and administration expense	1,950,725	1,624,448
Depreciation.....	676,201	525,401
Depletion of timber and amortization of roads.....	202,164	77,709
Interest on long-term debt.....	399,790	301,559
	32,531,316	21,296,061
Earnings before income taxes and minority interests	9,951,941	5,033,829
Income taxes		
Current.....	4,385,489	2,303,299
Deferred	337,368	102,365
	4,722,857	2,405,664
Earnings before minority interests.....	5,229,084	2,628,165
Equity of minority shareholders in the earnings of subsidiaries of the company, net of the company's minority equity in the earnings of non-controlled joint venture companies	542,685	359,527
NET EARNINGS FOR THE YEAR	4,686,399	2,268,638
Retained earnings beginning of year.....	5,757,674	3,670,056
	10,444,073	5,938,694
Dividends		
Preferred shares	12,586	28,058
Common shares	547,366	152,962
	559,952	181,020
RETAINED EARNINGS END OF YEAR.....	\$ 9,884,121	\$ 5,757,674
EARNINGS PER COMMON SHARE	\$1.50	\$.79
FULLY DILUTED EARNINGS PER COMMON SHARE	\$1.44	\$.71



Consolidated Statement of Source and Application of Funds

Year Ended October 31, 1973 (with comparative figures for 1972)

SOURCE OF FUNDS

	1973	1972
Operations		
Net earnings for the year	\$ 4,686,399	\$ 2,268,638
Add items not involving current funds		
Depreciation and depletion	878,365	603,110
Deferred income taxes	337,368	102,365
Amortization of deferred charges	7,911	52,298
Minority interests, net	542,685	359,527
Total funds from operations	6,452,728	3,385,938
Issue of common shares	90,844	103,047
Long-term debt, net of current portion	1,940,820	494,906
Proceeds from disposal of fixed assets, net of gains and losses	143,103	256,533
	8,627,495	4,240,424

APPLICATION OF FUNDS

Additions to fixed assets	4,032,804	2,303,266
Reduction of long-term debt	249,629	129,362
Net additions to investments and other non-current assets	47,347	359,005
Dividends	559,952	181,020
	4,889,732	2,972,653
INCREASE IN WORKING CAPITAL	3,737,763	1,267,771
Working capital beginning of year	4,325,104	3,057,333
WORKING CAPITAL END OF YEAR	\$ 8,062,867	\$ 4,325,104

DAMAN INDUSTRIES LIMITED

Consolidated Balance Sheet


at October 31, 1973 (with comparative figures at October 31, 1972)

	1973	1972
ASSETS		
CURRENT ASSETS		
Cash	\$ 4,984,575	\$ 2,567,729
Accounts receivable	5,436,607	3,309,794
Inventories (note 2)	7,623,276	3,335,748
Prepaid expenses and other	526,124	598,349
	<u>18,570,582</u>	<u>9,811,620</u>
INVESTMENTS IN NON-CONTROLLED COMPANIES AND OTHER NON-CURRENT ASSETS (note 3)	<u>877,120</u>	<u>601,396</u>
FIXED ASSETS, at cost		
Buildings, machinery and equipment	9,510,792	7,319,365
Less accumulated depreciation	2,734,872	2,381,874
	<u>6,775,920</u>	<u>4,937,491</u>
Land	1,984,274	804,310
Timber holdings and logging roads, less amounts written off \$1,181,481 (1972—\$979,317)	1,117,082	1,124,139
	<u>9,877,276</u>	<u>6,865,940</u>
INTANGIBLES AND DEFERRED CHARGES		
Excess of cost over book values on acquisition of shares in subsidiaries, identified mainly with freight hauling rights	354,283	354,283
Other	—	7,911
	<u>354,283</u>	<u>362,194</u>
	<u><u>\$29,679,261</u></u>	<u><u>\$17,641,150</u></u>

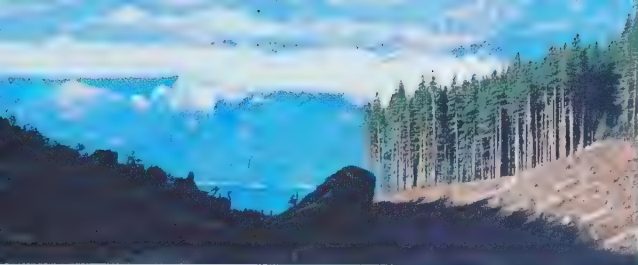
Approved by the Board



Director



Director



LIABILITIES

	1973	1972
CURRENT LIABILITIES		
Bank indebtedness, secured	\$ 1,909,000	\$ 1,232,000
Accounts payable and accrued liabilities	5,532,914	2,858,782
Income taxes payable	2,623,477	1,255,550
Principal due within one year on long-term debt	442,324	140,184
	<u>10,507,715</u>	<u>5,486,516</u>
LONG-TERM DEBT (note 4)	4,805,824	3,114,633
DEFERRED INCOME TAXES	1,103,409	766,041
INTEREST OF MINORITY SHAREHOLDERS IN SUBSIDIARY COMPANIES	1,586,404	815,342
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 5)		
	Authorized	Issued
6½% Cumulative redeemable convertible preferred shares, par value \$10	31,801 (1972—54,786)	10,976 (34,786)
		109,760
Common shares no par value	6,681,592 (1972—6,497,712)	3,173,072 (2,919,352)
		1,682,028
		1,791,788
RETAINED EARNINGS		9,884,121
		<u>11,675,909</u>
		<u>\$29,679,261</u>
		<u>17,641,150</u>

To the Shareholders of
Doman Industries Limited

Auditors' Report

We have examined the consolidated balance sheet of Doman Industries Limited and subsidiary companies as at October 31, 1973 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements, in which due provision has been made for minority interests, present fairly the financial position of the companies as at October 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

November 30, 1973

Thorne Gunn & Co.
Chartered Accountants

DOMAN INDUSTRIES LIMITED

Notes to Consolidated Financial Statements

Year Ended October 31, 1973

1. ACCOUNTING POLICIES

(a) Basis of Consolidation:

The consolidated financial statements include the accounts of the company and all of its subsidiaries. The accounts of the non-controlled Saltair Lumber Company Ltd. and four land development companies are not consolidated. The investments in these companies are stated on the balance sheet at cost plus the Company's equity in undistributed earnings since incorporation; the statement of earnings includes the equity in the earnings of these companies.

(b) Inventories:

Lumber, logs and merchandise are valued at the lower of cost and net realizable value; supplies are valued at the lower cost and replacement cost.

(c) Fixed Assets and Depreciation:

Depreciation is recorded on a straight-line basis at rates based on the estimated useful lives of fixed assets. These estimated useful lives range between five to ten years for automotive equipment, ten to fifteen years for other equipment and twenty years for buildings. Costs of timber holdings and logging roads are written off as timber in the area is removed.

(d) Earnings per Share:

Earnings per share are calculated on the weighted average number of shares outstanding. Fully diluted earnings per share are calculated assuming that all of the 6½% cumulative redeemable convertible preferred shares outstanding at October 31, 1973 had been converted into common shares on November 1, 1972 and all share options and share purchase warrants had been exercised on that date.

2. INVENTORIES

	1973	1972
Logs.....	\$4,528,083	\$1,247,670
Lumber	2,140,379	1,362,923
Merchandise	768,240	587,409
Supplies	186,574	137,746
	<u>\$7,623,276</u>	<u>\$3,335,748</u>

3. INVESTMENTS IN NON-CONTROLLED COMPANIES AND OTHER NON-CURRENT ASSETS

	1973	1972
Investment in non-controlled companies:		
Shares, at cost plus equity in undistributed earnings.....	\$335,337	\$106,862
Debentures	308,000	288,000
Advances	109,938	97,494
Total investment in non-controlled companies	753,275	492,356
Other non-current assets	123,845	109,040
	<u>\$877,120</u>	<u>\$601,396</u>

4. LONG-TERM DEBT

		Principal instalments due within one year
Loans secured by First Mortgage Bonds:		
RoyNat Ltd., 10½% loan, repayable in 20 quarterly instalments of \$100,000 plus interest commencing in September 1978, balance of \$500,000 due in September, 1983.....	\$2,500,000	\$ —
Royal Bank loan, at prime plus 1½% repayable in quarterly instalments of \$87,500 plus interest with the balance of \$750,000 due in September, 1976.	1,712,500	350,000
Royal Trust Company loan secured by a first mortgage on the Duncan Financial Centre, at 9½%, repayable in monthly instalments of principal and interest of \$6,278 with the balance due in December, 1982	745,920	12,240
Other agreements and secured loans payable.....	289,728	80,084
	<u>\$5,248,148</u>	<u>\$442,324</u>



Long-term debt maturing in the next five years is as follows:

1974	\$442,324	1977	\$ 68,254
1975	435,584	1978	122,182
1976	1,098,504		

5. SHARE CAPITAL

On April 9, 1973, the common shares of the company were split 2 for 1. Prior year's figures and current year's transactions reflect the increased number of shares outstanding.

Preferred shares are redeemable at \$10.65 per share; each share is convertible at the option of its holder into eight common shares at any time up to thirty days after notice of redemption. Changes in the company's capital stock during the year were as follows:

- (a) 23,810 issued preferred shares were converted at their par value of \$238,100 into 190,480 common shares without par value.
- (b) 14,400 common shares were issued for \$33,864 cash on exercise of stock options.
- (c) 48,840 common shares were issued for \$56,980 cash on exercise of purchase warrants.

Share options remain outstanding on 4,200 shares granted to directors in 1969, and are exercisable at \$1.83 per share until July 11, 1974. In addition to the 4,200 unissued common shares reserved for the options, 43,920 common shares are reserved for the balance of 7,320 share purchase warrants issued in 1967 and still outstanding, entitling the bearer of each warrant until December 31, 1976, to purchase six common shares for \$7.00 (\$1.17 per share).

6. OTHER INFORMATION

- (a) Included in or netted against selling and administration expense are the following:
 - (i) Directors' remuneration, including fees to directors and remuneration of officers and employees who are also directors — \$132,000 (1972 — \$132,000)
 - (ii) Gain on disposal of fixed assets — \$34,357 (1972 — \$133,045).
- (b) The companies included in the consolidated financial statement are as follows (all are wholly owned except as noted):

	Sales	
	1973	1972
MANUFACTURING AND EXPORT GROUP		
Ladysmith Forest Products Limited (80% owned)		
Nanoose Forest Products Limited		
Nanaimo Forest Products Limited	\$30,254,260	\$16,282,265
Doman Logging Co. Ltd.		
O.B. Logging Co. Ltd.		
Doman Timber Sales Limited (Export Division)		
DOMESTIC GROUP		
Armour & Saunders Limited		
Doman Industries Limited	13,602,584	10,183,338
Doman Investments Limited		
Doman Timber Sales (Domestic Division)		
Duncan Financial Centre Ltd. (51% owned)		
TRANSPORTATION GROUP		
Doman's Transport Ltd.		
Doman-Marpole Transport Limited		
Davinder Freightways Ltd.	4,035,794	3,385,246
Hyak Transport Limited (60% owned)		
Doman's Freightways Ltd.		
	47,892,638	29,850,849
Elimination of inter-company transactions	5,409,381	3,520,959
Net consolidated sales	\$42,483,257	\$26,329,890

Cash Flow (\$ MILLIONS)



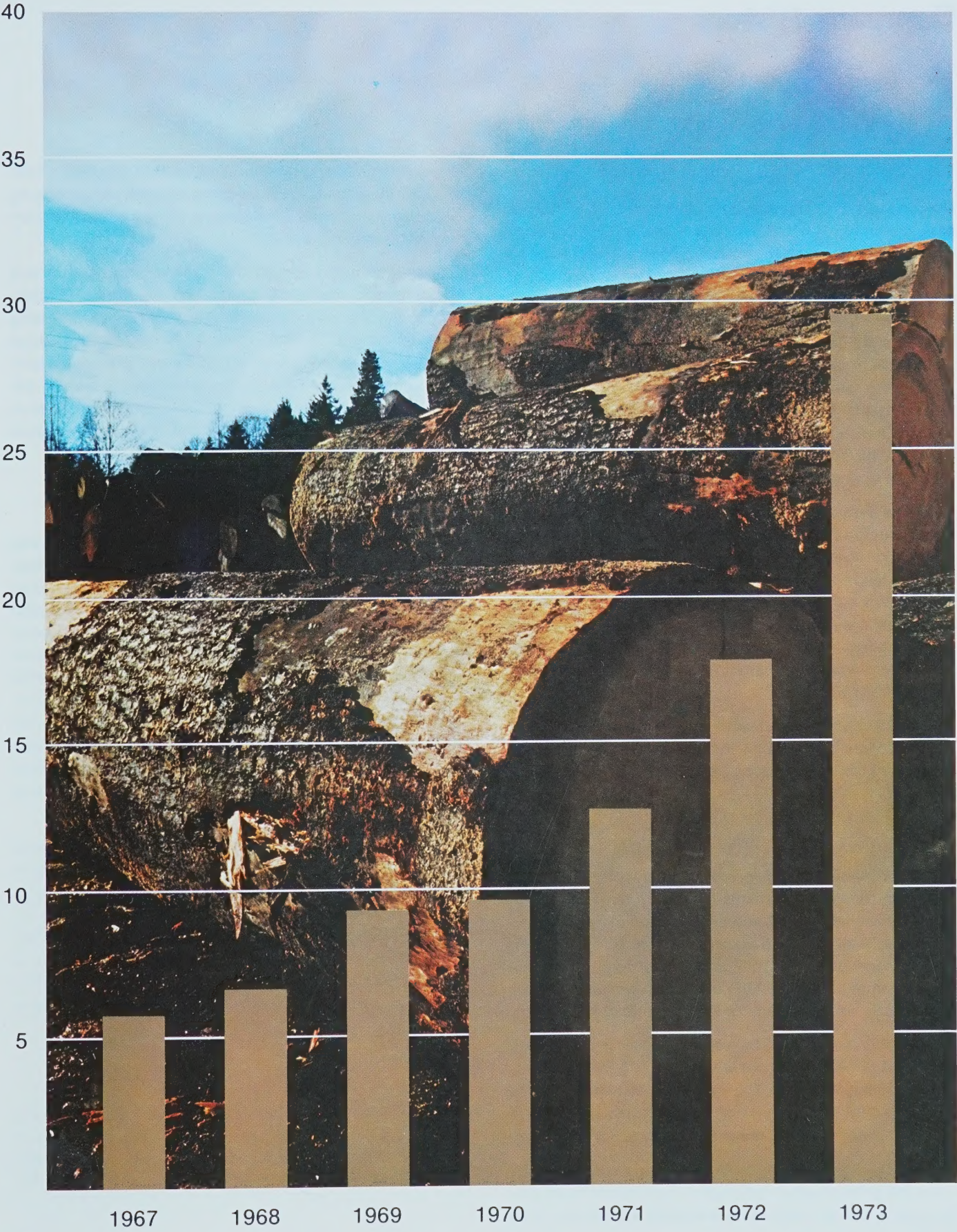
Working Capital at Fiscal Year End (\$ MILLIONS)



Number of Employees



Total Assets at Fiscal Year End (\$ MILLIONS)



DOMAN INDUSTRIES LIMITED

Company History

The First Ten Years 1955 to 1965

Doman Industries Limited was founded in 1955 by its present Chairman of the Board and President, Harbanse S. Doman. The first ventures included contract truck hauling of lumber, ore and fuel as well as the sale of lumber and fuel. The business expanded quickly and by 1964 Doman's trucks were operating throughout the Province of B.C. as public freight carriers, and the original lumber selling ventures had broadened to include a full line of building supplies being offered from five stores. In 1964 Domans acquired its first sawmill and entered into the logging business. In the following year the Company branched out further with the acquisition of a sand, gravel and ready mix concrete operation.

Doman Industries Limited became a Public Company in late 1964. The Company's common and preferred shares were called for trading on the Vancouver Stock Exchange in 1965 following an issue of \$15.00 units made up of 57,000 6½% cumulative redeemable convertible preferred shares per value \$10.00 per share, and 57,000 common shares without nominal or par value. (These original common shares were subsequently split 3 for 1 in 1969 and 2 for 1 in 1973.)

The 1965 consolidated sales volume was just under six million dollars and annual lumber production from the Company's sawmills reached eight million board feet in that year.

The Period from 1966 to 1970

In 1966 Domans joined forces with two subsidiaries of Canadian Pacific Investments Limited to form Ladysmith Forest Products Limited, and construction of a major sawmill at Ladysmith, B.C. commenced. The plant was substantially completed in 1967 and from that point on, the production of lumber and the export of lumber became a major factor in the growth of Doman Industries Limited.

A second public offering was made in early 1967 and consisted of \$9.75 units made up of 40,000 6½% cumulative redeemable convertible preferred shares par value \$10.00 and 40,000 common share purchase warrants. In the same year the first major debt financing was completed.

In 1968 annual lumber production had reached forty million board feet. In 1969 Domans entered into its first large

sustained yield logging operation when it acquired a Timber Sale Harvesting License, complete with camp, logging equipment and road development, 50 miles north of Vancouver at Jervis Inlet, B.C.

Throughout this period the transportation group and the domestic marketing group had continued to grow along with the logging, sawmilling and export marketing ventures of the Company. The 1969 consolidated sales volume exceeded fourteen million dollars and annual lumber production from the Company's sawmills was 70 million board feet in that year. In July 1969 the common shares were split 3 for 1 and in May 1970 these shares were listed for trading on the Toronto Stock Exchange.

The Period 1971 and 1972

In 1971 new records were set when consolidated sales passed the twenty million dollar level and lumber production reached 123 million board feet. In that year transport hauling rights were acquired for the States of Washington and Oregon, the Company expanded into the business of land development for residential subdivisions, and construction started on the second Doman/C.P. Investments joint venture sawmill at Ladysmith, B.C., under the corporate name Saltair Lumber Company Ltd. During the year new debt financing was completed under a First Mortgage Bond issue and in December 1971 common share dividend number one and the twenty-eighth consecutive preferred dividend were both declared.

1972 saw the completion of the new Saltair Lumber Company Ltd. sawmill; the consolidation of B.C. mainland truck freight operations on 17 acres just outside of the City of Vancouver on the north arm of the Fraser River; the expansion of domestic sales facilities; the construction of the Duncan Financial Centre office building; and the start of construction of a new dryland sawmill at Chemainus, B.C. The year ended with record sales and earnings levels to that date.

1973

In 1973, which is the subject covered throughout this report, the Company achieved both the highest sales volume and the highest net earnings in its history when sales reached \$42,483,000 and net earnings were \$4,686,000.

PHOTO PAGE 6
COURTESY OF RoyNat Ltd.

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